FIRSTLAND ENERGY LIMITED | 2004 ANNUAL REPORT

Corporate Profile

FIRSTLAND Energy Limited is a junior oil and gas exploration and production company with a substantial land base in Alberta. FIRSTLAND's shares are listed on the TSX Venture Exchange under the trading symbol "FLD". At year end December 31, 2004 there were 12,400,000 common shares listed.

Annual Meeting

The annual meeting of **FIRSTLAND Energy Limited** will be held in the Lake Louise Room at The Westin, Calgary on June 2, 2005 at 2:00 p.m. We extend a warm welcome to all our shareholders; however, those unable to attend are encouraged to complete and return their Form of Proxy, which is enclosed with this Annual Report.

Abbreviations

ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent
bbl	barrel
Mbbl	thousand barrels
Mcf	thousand cubic feet
MMcf	million cubic feet
GORR	Gross Over Riding Royalty

Conversion

6 Mcf = 1 BOE

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($ Thousands, except per share amounts)	2004	**2003**
Petroleum and Natural Gas Revenue	795	1,129
Net Income (Loss)	99	210
Per Share	0.01	0.02
Cash Flow from Operations	409	754
Per Share	0.03	0.06
Net Capital Expenditures	417	807
Shareholders' Equity	3,820	3,721
Debt	–	–
Working Capital	1,522	1,531
Natural Gas Production (Mcf/d)	330	473
Oil Production (bbl/d)	5	6
Natural Gas Equivalent (Mcf/d) (1:6)	360	509
Barrel Oil Equivalent (BOE/d) (6:1)	60	85
Natural Gas Selling Price ($/Mcf)	5.60	5.61
Oil Price ($/bbl)	51.04	42.50
Operating Expenses ($/BOE) (6:1)	8.19	5.48
Proved and Probable Producing Reserves		
(MMcf Natural Gas)	551	445
(Mbbl Oil)	18	16
(MMcf Natural Gas Equivalent)	659	535
Cash Flow Netback $/BOE (6:1)	23.75	24.31
Petroleum & Natural Gas Land Holdings		
Gross Acres (Thousands)	245	226
Net Acres (Thousands)	237	213
Royalty Acres (Thousands)	29	24
Common Shares (Millions)		
December 31	12.40	12.40
Fully Diluted	13.05	13.05

The management of FIRSTLAND Energy Limited is pleased to report to the shareholders for the year ending December 31, 2004.

FIRSTLAND has been successful over the last eight years in building a large undeveloped land base that has potential for high impact, new pool exploration. The company exited the year with a record 237,000 net acres of P&NG lands in Alberta. Over 50% of these lands are located in a prospective belt that trends from Simonette to Chinchaga River in northwest Alberta. Ultimately, increased exploration activity will return to these areas.

The past year failed to meet with expectations in a number of areas. More exploration on company lands was anticipated. Continuing high commodity prices have not yet generated a meaningful shift to new pool exploration. Industry continues to emphasize development drilling where risk and time to develop cash flow are minimized. With natural gas prices steadily in the $6.00 to $7.00 per Mcf range, it is attractive for many companies to pursue lower risk drilling locations.

A record number of wells were drilled in Alberta in 2004. Industry focused on development drilling and many of the exploratory locations were low risk in nature. This type of drilling usually does not add substantial value to a company like new pool exploration. Real exploration is cyclical in nature and the cycle can often be tied to other's successes or failures. In the past year, there were a number of very significant discoveries made. While high commodity prices did not move exploration to the forefront in 2004, these new developments may succeed.

The Ricinus, Pembina and Mega discoveries are all deep Devonian new pools that have regional implications. Certainly, at Ricinus and Pembina, recent area land prices have jumped dramatically, an indicator for increased exploration ahead. At Mega, in the Chinchaga River region of northwest Alberta, a Keg River oil discovery also has regional implications largely due to the relative lack of deep well control in the area. The question raised now is "where is the next one"?

Much of our company's land, particularly in northwest Alberta, is in underdeveloped areas with multi zone potential for both oil and natural gas. The "prospective belt" also holds potential for the deep play. FIRSTLAND will remain focused on encouraging exploration on company lands through farm out agreements with industry partners where the partners contribute drilling in exchange for an interest in the lands. To date, nearly 80% of the wells drilled on company lands have been drilled at no cost to FIRSTLAND. Many of the wells were high risk exploration ventures that could have added substantial value to the company. Overall results to date have been disappointing but reflect the risky nature of oil and gas exploration. Fortunately, because of the cost structure of these joint ventures, FIRSTLAND has been able to avoid dilution that would have been necessary if capital was invested more on the drilling side. With only 12,400,000 shares outstanding, no debt and over $1,500,000 in working capital, FIRSTLAND remains well positioned to realize share appreciation when exploration success occurs.

"FIRSTLAND HAS BEEN SUCCESSFUL OVER THE LAST EIGHT YEARS IN BUILDING A LARGE UNDEVELOPED LAND BASE THAT HAS POTENTIAL FOR HIGH IMPACT, NEW POOL EXPLORATION."

FIRSTLAND produced 60 BOE per day in 2004, down from 85 BOE per day a year earlier. The decrease in production was mainly related to normal decline rates and a production disruption at Botha. New production was added at Etzikom, in southern Alberta, where four shallow Medicine Hat gas wells were placed on stream. The company's reserves rose slightly in spite of the decrease in production. This is mainly attributed to the new reserves at Etzikom and reassessment of our shallow gas production in other areas to date. Production revenue for the year totaled $795,000 generating $409,000 in cash flow and $99,000 in net income.

In 2004, seven wells were drilled on company lands resulting in five gas wells, one oil well and one dry hole. FIRSTLAND holds a non convertible gross over riding royalty (GORR) in five of the wells and associated lands and has a convertible GORR in the remaining two wells. Production from these wells is not expected to materially impact company production in 2005. A number of the wells, including two coal bed methane wells are not likely to be tied in until further development work has been completed in their respective areas by the operators.

FIRSTLAND will continue to remain focused on entering into joint ventures aimed at exploration on company lands that could add significant value to the shares of the company. The company has successfully developed a large undeveloped land base in Alberta at a time when undeveloped land prices are soaring.

The management of FIRSTLAND remains optimistic that the company is well positioned for future success. Thank you for your continued support.

On behalf of the board,

David van der Lee
President
April 10, 2005

LAND

Effective December 31, 2004, FIRSTLAND held 237,000 net acres of Petroleum and Natural Gas Leases (245,000 gross) and royalty interests covering another 29,000 acres, all in the Province of Alberta.

More than 50% 0f the company's acreage is located in a prospective belt over 200 miles long that runs through the oil window between Simonette in the south, and ends just north of the prolific Slave Point pools at Hamburg and Cranberry in the Chinchaga River area. In the Chinchaga River area at Mega, a Keg River oil discovery made in early 2004 is developing into a regional play. FIRSTLAND has some exposure in the general area, particularly at Venus where the company holds over 15,000 net acres of undeveloped lands.

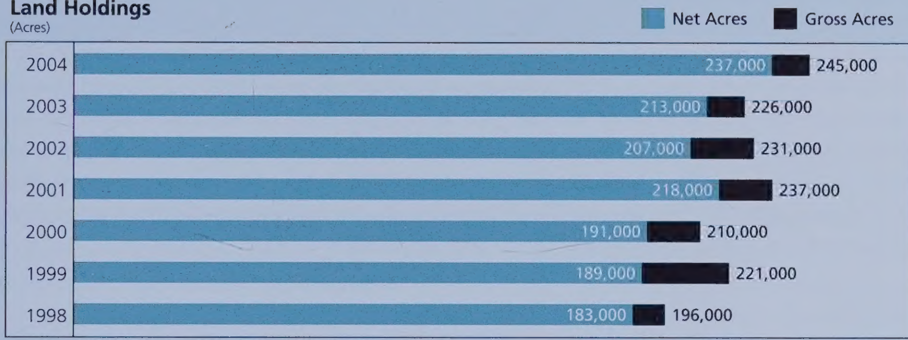
FIRSTLAND has acquired lands along this belt in areas that are less developed by Alberta standards but are generally accessible and close to pipelines and other infrastructure. Exploration risks are high but potential reserves are greater than in the more developed central and southern areas of the province. This belt affords multi-zone potential for conventional new pool exploration for both oil and natural gas from shallow by-passed zones down to the deep play.

Provincial Petroleum and Natural Gas Rights averaged $142 per acre in 2004, a 23% increase from the $115 the Crown received in 2003. The company's acquisition program is based on regional bidding in favored areas and not on specific prospects. During the year 47,580 net acres of new land was acquired at a cost of $551,000.

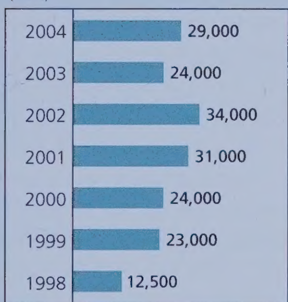
DRILLING

A total of seven wells were drilled on FIRSTLAND acreage in 2004. All seven of the wells were subject to farm-out agreements with industry partners and were drilled at no cost to the company.

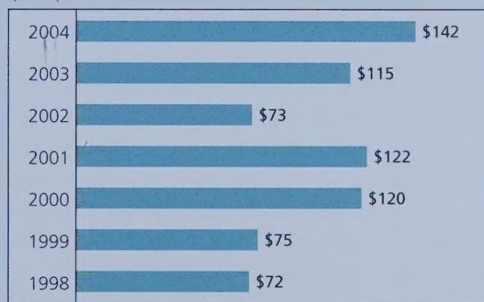
Land Holdings
(Acres)



Royalty Lands
(Acres)



Price Per Acre/Alberta Crown Land Sales
(Dollars)



The following chart compares drilling results over the past two years.

	Gas Well	Oil Well	Dry
2004	5	1	1
2003	9	–	2

		Development	Exploratory
2004	–	4	3
2003	–	8	3

Three wells were drilled during the first quarter of 2004. At Prestville, in the Chinchaga River area of northwest Alberta, a 2,450 meter test was completed as a Slave Point oil well. FIRSTLAND holds a non convertible 5% gross over riding royalty in the well and a four section (2,560 acre) block of company land in the area. The well began production in January, 2005, at about 75 barrels per day. Production is restricted to the first quarter due to the lack of infrastructure in the area at present. At Nestow, in central Alberta, a shallow Edmonton Formation test was drilled and abandoned on a one section block of company lands. FIRSTLAND retained a 100% interest in the P&NG Rights below the base of the Edmonton Formation on the section. Also, at Leahurst, a 1,300 meter Paleozoic test was drilled and completed as a gas well. The well commenced production in May at low rates and is currently suspended.

During the third quarter, a shallow well was drilled and completed for coal bed methane on a quarter section of company land in the Gadsby area of central Alberta. The well is currently shut in awaiting further development of the area. Also, a second shallow well was drilled on a section of company land at Nevis in central Alberta. The well was also cased for coal bed methane and subsequently was completed during the first quarter of 2005. Further development drilling is likely on this property but the time frame is uncertain. FIRSTLAND holds a GORR on this well convertible at payout to a 40% working interest on a well by well basis.

In the fourth quarter, two wells were drilled on FIRSTLAND lands in the Marwayne and Frog areas of east central Alberta. Both wells were cased as potential gas wells. At Marwayne, FIRSTLAND can elect to convert to a 40% working interest at payout.

Production

FIRSTLAND produced an average of 60 barrels of oil equivalent per day in 2004, a 29% drop from the 85 barrels of oil equivalent produced in the year prior. Natural gas production averaged 330 Mcf per day in 2004 compared to 473 Mcf per day in 2003. Oil production decreased to average five barrels per day from six barrels per day a year earlier. Most of the decline can be attributed to natural decline rates and the disruption of production at Botha. The main addition of production during the year was at Etzikom where four shallow gas wells were placed on stream during the first quarter of 2004.

Reserves

The corporate reserve estimates, dated December 31, 2003 were prepared by the independent engineering firm of Citadel Engineering Ltd. in accordance with National Instrument 51-101, (NI 51-101). This new regulation, which became effective September 30, 2003, replaces National Policy 2-B. The implementation of NI 51-101 has resulted in a requirement of higher certainty relating to the recovery of reserves. Proved reserves are defined as having a 90% probability that the actual reserves recovered will equal or exceed the assigned estimates. Probable reserves are defined as having a 50% probability that the actual reserves recovered will equal or exceed the assigned estimates. The more stringent requirements have been established to provide consistent guidelines for reserve evaluation within the industry. In 2004, the company increased total proved plus probable producing reserves by 22% to 659 MMcf equivalent from 541 MMcf equivalent a year earlier. Reserve additions replaced production by 1.35 times for proved plus probable reserves. Net proved plus probable producing reserves after royalties increased by 22% over the same period from 510 MMcf equivalent to 623 MMcf equivalent at December 31, 2004.

Net Producing Reserves After Royalties

Appraised Interest (Escalated Prices)

	Crude Oil & NGLs	Natural Gas	NPV ($000s) Discounted at			
	(Mbbls)	(MMcf)	0%	5%	10%	15%
Proved Producing	14	436	2,376	1,997	1,737	1,546
Probable Producing	4	79	572	430	332	263
ARTC			34	32	31	29
Grand Total *(623 MMcf equivalent)*	18	515	2,982	2,459	2,100	1,838

Total Reserves Reconciliation Before Royalties

Proved and Probable Producing

	Crude Oil (Mbbls)	Natural Gas & NGLS (MMcf)	Natural Gas Equivalent (MMcf)
January 1, 2004	16	445	541
Production	(2)	(120)	(132)
Acquisitions	–	–	–
Dispositions	–	–	–
Additions	–	72	72
Revisions	4	154	178
Grand Total	18	551	659

FIRSTLAND holds non-convertible royalty interests in producing properties at Lethbridge, and Coronation that were not part of the independent engineering evaluation. These properties currently produce 1 BOE per day net and generate approximately $700 per month in income.

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements for the years ended December 31, 2004 and 2003.

Cash flow from operations per share is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income, cash flow is a useful supplemental measure as it provides an indication of the results generated by the company's principal business activities prior to the consideration of how those activities are financed or how they are taxed. Investors should be cautioned, however, this measure should not be construed as an alternative to net earnings per share determined in accordance with GAAP as an indication of the company's performance. The company's method of calculation of this measure may differ from other companies, and accordingly, they may not be comparable to measures used by other companies. The company presents cash flow from operations before changes in non cash working capital.

This MD&A presents and discusses results on a BOE equivalent basis and a Mcf equivalent basis. All BOE and Mcf conversions in this report are based on the ratio of six thousand cubic feet of natural gas equated to one barrel of oil.

Business Risks

Exploration, development and production of oil and natural gas involve numerous risks that even the combination of experience and prudent evaluation may not be sufficient to overcome. Utilizing highly skilled professionals, focusing in areas where the company has existing knowledge and expertise or access to such expertise, using up to date technology and controlling costs to minimize margins, mitigate these risks. The company maintains a comprehensive insurance program that insures liability and property consistent with industry practice. The program is designed to mitigate risks and protect against significant loss. However, the company is not fully insured against these risks nor are all such risks insurable.

Financial risks include exposure to fluctuation in commodity prices, currency exchange rates and interest rates. To mitigate commodity risk, the company maintains direct marketing control over a majority of its production. The company enters into physical contracts for the sale of natural gas through a marketing agent on the spot market. FIRSTLAND does not enter into fixed pricing arrangements or employ hedging techniques and remains dependent on current commodity prices and currency exchange rates. Interest rates have not been material to financial risk to date as the company has yet to employ bank debt.

Corporate Strategy

FIRSTLAND Energy Limited is a Calgary based junior oil and gas exploration and producing company whose business plan is based on acquiring undeveloped land holdings in areas of Alberta with potential for new discoveries. The company prefers to enter into farm-out agreements with industry partners where the partners contribute seismic and or drilling in exchange for an interest in the lands. This approach is highly cost effective and can yield substantial leverage to the company as seismic and drilling are very capital intensive relative to our land acquisition costs. After successful exploration, FIRSTLAND may in some cases participate in development activities where the risk is lower than the risks associated with exploration. In some cases the company chooses to remain in a royalty position.

Our primary objective is to add value to the company by creating a high quality asset base and provide investors the potential to maximize the value of their investment.

RESULTS FROM OPERATIONS

Revenue ($000)	2004	2003
Production income	$ 545	$ 752
Royalty income	250	377
Interest and other income	33	43
Total Revenue	$ 828	$ 1,172

Total revenue decreased by 29% to $828,000 from $1,172,000 a year earlier. Total oil and natural gas income also decreased 29% to $795,000 in 2004 from $1,129,000 in 2003. The decrease in income related to oil and gas sales is largely due to lower production which fell by about 29% from an average of 85 BOE per day to an average of 60 BOE per day in 2004. Natural gas production averaged 330 Mcf per day in 2004 down 30% from the 473 Mcf per day produced in 2003. Natural gas prices which averaged $5.60 per Mcf in 2004 remained unchanged from the $5.61 per Mcf received in 2003. Oil prices increased from $42.50 per barrel in 2003 to average $51.04 per barrel in 2004. FIRSTLAND'S production is weighted 93% towards natural gas.

Royalty income of $250,000 as a portion of overall oil and gas income remained relatively constant at 31% of total oil and gas income in 2004. In 2003, royalty income totaled $377,000 or 33% of total oil and gas sales.

Interest and other income decreased to $34,000 in 2004 from $43,000 in 2003.

Expenses

The following table compares annual expenses for the years 2004 and 2003:

Expenses ($000)	2004	2003
Amortization	$ 251	$ 491
$ per BOE	11.47	15.82
General and administrative	98	93
$ per BOE	4.48	3.01
Management fees	96	94
$ per BOE	4.38	3.02
Operating	179	170
$ per BOE	8.19	5.48
Crown royalties (net of ARTC)	46	60
$ per BOE	$ 2.10	$ 1.93

Amortization decreased to $251,000 or $11.47 per BOE during the year from $491,000 or $15.82 per BOE in 2003. The decrease is due to an upwards revision in total proved and probable producing reserves resulting from an evaluation report by an independent consulting firm implementing the new guidelines under Policy 51-101. The company has adopted the new CICA standard on the accounting for asset retirement obligations in 2004. The standard requires recognition of a liability at discounted fair value for the future abandonment and reclamation associated with petroleum and natural gas properties. The fair value is capitalized as part of the cost of the related asset and is amortized over its useful life. The liability accumulates until the date of expected settlement of the retirement obligations. FIRSTLAND has included $85,000 of abandonment costs in property, plant and equipment for 2004.

General and administrative expenses increased to $98,000 from $93,000 the previous year due mainly to higher reporting costs.

Management fees increased to $96,000 or $4.38 per BOE in 2004 from $94,000 or $3.02 per BOE a year earlier. Essentially the company's two managers received an increase to $4,000 per month from $3,000 per month effective February 1, 2003. This represented the first increase since the company's first year of operations in 1996. Management owns over 45% of the company and is focused on adding value to the shares for the benefit of all shareholders. The company as a result does not have any bonus or benefit plan other than stock options which are discussed in the notes attached to the financial statements of this report.

Operating charges increased to $179,000 or $8.19 per BOE from $170,000 or $5.48 per BOE in 2003. The increase reflects higher field costs and falling production rates in maturing properties. Also, in 2004, transportation charges are now included in operating costs. In 2004, FIRSTLAND paid slightly over $10,000 in transportation charges.

Royalty expenses decreased to $46,000 in 2004 from $60,000 a year earlier largely as a function of an overall decrease in production.

Net Income and Cash Flow

FIRSTLAND recorded $99,000 in net income ($0.01 per share) for 2004 compared to $198,000 ($0.02 per share) a year earlier. Cash flow from operations decreased 46% to $408,000 ($0.03 per share) from $754,000 ($0.06 per share) in 2003. The decrease in cash flow is largely due to lower production as commodity prices were up slightly. The following table compares net income/loss and cash flow from operations on a BOE basis.

Net Income and Cash Flow From Operations per BOE

Years ended December 31,	2004	2003	%change
Revenue	$ 36.30	$ 36.40	–
Royalties, net of ARTC	2.10	1.93	+ 9
Operating expenses	8.19	5.48	+ 49
Operating netback	26.01	28.99	- 10
General and administrative	4.48	3.01	+ 49
Compensation expense	4.38	3.03	+ 44
Interest	(1.53)	(1.37)	+ 12
Cash flow	18.68	24.32	- 23
Amortization	11.47	15.83	- 28
Future income taxes	2.70	1.72	+ 57
Net income	$ 4.51	$ 6.77	- 34

Taxes

The company was not taxable in 2003. FIRSTLAND has available for deduction against future taxable income: un-depreciated capital costs, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses totaling $1,525,785 ($1,480,121 in 2003).

Ceiling Test

FIRSTLAND has adopted the new CICA accounting guidelines in applying the ceiling test on the carrying costs of petroleum and natural gas properties. The net amount at which petroleum and natural gas properties are carried is limited to the fair value of those properties based on the present value of the future net revenues (the ceiling test). FIRSTLAND utilized year end commodity prices to conduct the test and at those prices had a cushion against any write down at year end 2004.

Liquidity

The company ended 2004 with $1,522,000 in working capital, $803,000 in retained earnings and is debt free. Working capital on hand is sufficient to maintain an active acreage acquisition program as well as production, office and other expenditure requirements in 2005.

During 2004, FIRSTLAND invested $551,000 in acquiring 47,580 acres of undeveloped land in Alberta. Proceeds from divesting acreage totaled $134,000.

Share Capital/Equity

At December 31, 2004, there were 12,400,000 common shares of FIRSTLAND Energy Limited issued and outstanding and 650,000 shares reserved under option agreements with directors and consultants to the company. These numbers were unchanged over the year. Total shareholders' equity to date for the issuance of the 12,400,000 shares outstanding, is $3,016,920. The weighted number of shares outstanding during the year was 12,400,000.

HISTORICAL INFORMATION

Summary of Quarterly Results

(unaudited)

($ thousands, except per share)	March31	June 30	September 30	December 31
2003 Quarter Ended				
Revenue before royalties	$ 346	$ 282	$ 272	$ 277
Net Income (loss)	57	(36)	23	90
Per basic share	0.01	(0.00)	0.00	0.01
Per diluted share	$ 0.01	$ (0.00)	$ 0.00	$ 0.01
2004 Quarter Ended				
Revenue before royalties	$ 227	$ 230	$ 174	$ 197
Net Income (loss)	49	15	33	2
Per basic share	0.00	0.00	0.00	0.00
Per diluted share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Quarterly revenues in 2004, as compared to the same periods in 2003, decreased as a function lower production. Similarly, production rates were mainly responsible for the fall in quarterly income beginning in the first quarter of 2004.

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles (GAAP) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2004 to December 31, 2003.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Czechowsky Graham, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Company's most recent annual general meeting, to audit the financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors has discussed the financial statements, including the notes thereto, with management and external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

David van der Lee
President
April 10, 2005

To the Shareholders of FIRSTLAND Energy Limited

I have audited the balance sheet of Firstland Energy Limited as at December 31, 2004 and the statements of income, retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Steve Czechowsky

Steve Czechowsky
Chartered Accountant
Calgary, Alberta
March 24, 2005

As at December 31,	2004	2003 Restated
Assets		
Current		
Cash and short term investments	$ 1,535,559	$ 1,432,877
Accounts receivable	98,935	200,391
	1,634,494	1,633,268
Property and Equipment *(notes 1,2,4)*	2,942,331	2,769,830
	$ 4,576,825	$ 4,403,098
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 112,292	$ 102,529
Asset Retirement Obligation *(note 5)*	84,963	78,669
Future Income Taxes *(note 6)*	560,000	500,900
	757,255	682,098
Shareholders' Equity		
Share Capital		
Authorized		
Unlimited number of common voting shares		
Unlimited number of preferred non-voting shares		
Issued		
12,400,000 common shares *(note 7)*	3,016,920	3,016,920
Retained Earnings	802,650	704,080
	3,819,570	3,721,000
	$ 4,576,825	$ 4,403,098

On behalf of the board:

A. David van der Lee
Director

P. Wayne Wells
Director

For the Year Ended December 31,	2004	2003 Restated
Income		
Royalty income	$ 249,829	$ 377,201
Production	544,813	752,092
Interest and other	33,562	42,515
	828,204	1,171,808
Expenses		
Accretion	6,292	5,827
Depletion, depreciation and amortization	244,892	489,569
General and administrative	98,014	93,326
Management fees	96,000	94,000
Operating	179,365	170,100
Crown Royalties (net of ARTC)	45,971	60,026
	670,534	912,848
Income Before Income Taxes	157,670	258,960
Future Income Taxes	59,100	60,500
Net Income	$ 98,570	$ 198,460
Basic Earnings Per Share	$ 0.01	$ 0.02
Diluted Earnings Per Share	$ 0.01	$ 0.02

STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31,	2004	2003
Retained Earnings – Beginning of Year		
As previously reported	$ 689,807	$ 479,484
Retroactive Change in Accounting Policy –		
Asset Retirement Obligation *(note 3)*	14,273	26,136
As restated	704,080	505,620
Net Income for the Year	98,570	198,460
Retained Earnings – End of Year	$ 802,650	$ 704,080

For the Year Ended December 31,	2004	2003 Restated
Operating Activities		
Net income	$ 98,570	$ 198,460
Items not affecting cash:		
Depletion, depreciation and amortization	251,184	495,396
Future income taxes	59,100	60,500
	408,854	754,356
Changes in non-cash working capital:		
Accounts receivable	101,456	95,909
Accounts payable and accrued liabilities	9,762	17,024
	111,218	112,933
Cash flow from operating activities	520,072	867,289
Investing Activities		
Acquisition of undeveloped land	(550,562)	(546,552)
Acquisition of property and equipment	(957)	(377,583)
Proceeds on disposition of undeveloped land	126,399	117,146
Proceeds on disposal of equipment	7,730	–
Cash flow used by investing activities	(417,390)	(806,989)
Increase in cash	102,682	60,300
Cash – Beginning of year	1,432,877	1,372,577
Cash – End of year	$ 1,535,559	$ 1,432,877
Cash flow supplementary information		
Interest received (paid)	$ 31,458	$ 35,414
Cash consists of:		
Cash in bank	$ 236,009	$ 337,607
Short term investments	1,299,550	1,095,270
	$ 1,535,559	$ 1,432,877

Cash consists of cash and short-term investments

Year Ended December 31, 2004

1. CORPORATION BACKGROUND

The Company was incorporated pursuant to the Business Corporations Act (Alberta) on August 25, 1995.

On August 30, 1995, the Company acquired its initial undeveloped land from two private oil and gas companies in exchange for 5,000,000 common shares. This transaction was recorded at the transferors' historic cost of $231,012 since those companies controlled the Company. The Company is continuing to acquire undeveloped land and has made a number of agreements with industry partners granting them farm outs and options to drill on the Company's lands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Outlined below are those policies considered particularly significant to the Company:

a) Oil and gas operations

The Company follows the full cost method of accounting for oil and gas operations. All costs of exploration for and development of oil and gas reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration and development activities. Proceeds received on the sale of natural gas and petroleum properties are credited to the capitalized costs except for dispositions which would significantly alter the relationship between capitalized costs and proven natural gas and petroleum reserves.

b) Depletion and depreciation

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved reserves as determined by independent engineers. Reserves and production quantities, for depletion calculations, are converted to equivalent units of oil based on 6,000 cubic feet of natural gas to one barrel of oil.

Calculations for depletion and depreciation of production equipment are based on total capitalized costs plus estimated future development costs of proved undeveloped reserves less the estimated net realizable value of production equipment and facilities after the proved reserves are fully produced. The costs of acquiring undeveloped land are excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

c) Undeveloped Land

Undeveloped land consists of leasing costs, including the lease bonus and lease rentals. These costs are capitalized as unproven properties until the existence or lack of reserves is determinable. These properties are assessed on an annual basis to determine whether they have become impaired in which case they are written off against the provision for impairment. Up until December 31, 2000, when it was determined the full cost method of accounting became appropriate as the Company had achieved commercial production levels, a provision for impairment at a rate of 20% straight-line annually was made based on the average lease length. This provision assumed 70% of lands would become impaired.

d) Other capital assets

Office equipment and furniture are depreciated on a declining balance basis at 20% per annum.

e) Ceiling test

Effective January 1, 2004 the Company adopted new Canadian standards for full cost accounting which modifies how the ceiling test is performed.

The Company applies a two-stage ceiling test to capitalized costs to ensure that such costs do not exceed the undiscounted future cash flows from production of proved reserves. Undiscounted future cash flows are calculated based on management's best estimate of forward indexed prices applied to estimated future

production of proved reserves plus anticipated proceeds from the sale of undeveloped properties, less estimated future operating costs, royalties net of Alberta Royalty Tax Credits, capital and income taxes, future development costs and abandonment costs. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine if any impairment exits and if the cost centre is to be written down to its fair value. The second stage requires the calculation of discounted future cash flows from proved plus probable reserves. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows. The adoption of new standards had no effect on the Company's financial results.

f) Use of estimates

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment, and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

g) Asset retirement obligation

Effective January 1, 2004, the Company retroactively adopted new Canadian accounting standards for asset retirement obligation ("ARO"). The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period which they were incurred, normally when the asset is purchased or developed. Upon recognition of the liability there is a corresponding increase in the carrying amount of the long-lived asset, which is depleted on a unit of production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with accretion charged to income. Actual costs incurred upon settlement of the obligations are charged against the liability. The Company has retroactively applied this standard and has restated its December 31, 2003 balance sheet. The restatement does not impact cash flow. Note 3 discloses the impact of the adoption of the new standards on the financial statements.

h) Stock-based compensation plans

The Company has an equity incentive plan as described in note 8. The Company records stock-based compensation in its accounts following the fair value method. The fair value of an option is calculated at the grant date, and expensed equally over the vesting term of the option. The Company records the cumulative stock-based compensation as a contributed surplus. When options are exercised the Company reduces the contributed surplus and increases share capital by the amount of accumulated stock-based compensation for the exercised option. The Company reverses accumulated stock-based compensation and contributed surplus on option contracts that are cancelled each period.

i) Revenue recognition

Revenues from the sale of petroleum and natural gas are recorded when the commodities are delivered to purchasers.

j) Joint operations

Certain petroleum and natural gas activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

k) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the new change.

l) Income taxes

The Company uses the liability method of tax allocation accounting. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

m) Cash and cash equivalents

Cash and cash equivalents include bank balances and highly liquid temporary money market instruments with original maturities of three months or less.

3. CHANGE IN ACCOUNTING POLICIES

a) Transportation

In 2004 the Company amended the accounting of oil and gas transportation cost to record these costs as operating expenses. Previously the costs were recorded as a reduction of oil and gas revenue.

b. Full cost accounting

In January 2004, the Company adopted new Canadian accounting guidance for full cost accounting, which modifies how the full cost ceiling test is performed resulting in a two stage process. The first stage requires the carrying amounts of the cost centre to be tested for recoverability using undiscounted future cash flow from proved reserves and management's best estimate of forward indexed prices. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine if any impairment exists and if the cost centre is to be written down to its fair value. The second stage requires the calculation of discounted future cash flows from proved plus probable reserves. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows.

c) Asset retirement obligations

Effective January 1, 2004, the Company retroactively adopted a new Canadian accounting standard for asset retirement obligation. Under the new standard, a liability is recognized for the future retirement obligation associated with the Company's property, plant and equipment. The fair value of the ARO is recorded on a discounted basis. This amount is capitalized as part of the cost of the related asset and depleted to expense over its useful life. The liability accretes until the Company settles the obligation. The adoption of the new standard resulted in the following effects on the Company's results for the year ended December 31, 2003:

	As Reported	Change	As Restated
Balance Sheet, at December 31, 2003			
Assets			
Property and equipment	$ 5,592,868	$ 72,842	$ 5,665,710
Accumulated depletion and depreciation	2,876,943	18,939	2,895,882
Liabilities and shareholders' equity			
Provision for future site restoration	63,936	(63,936)	–
Asset retirement obligations	–	78,669	78,669
Future income taxes	476,000	24,900	500,900
Retained earnings, end of year	689,809	14,270	704,079
Statement of Income and Retained Earnings for the year ended December 31, 2003			
Depletion and amortization	491,031	(1,462)	489,569
Accretion	–	5,827	5,827
Future income taxes	53,000	7,500	60,500
Net earnings	210,325	(11,866)	198,459
Retained earnings, beginning of year	479,484	26,136	505,620

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2004 Net book value
Undeveloped land	$ 1,885,672	$ 86,797	$ 1,798,875
Petroleum & natural gas properties	4,190,988	3,050,340	1,140,648
Furniture and fixtures	6,440	3,632	2,808
	$ 6,083,100	$ 3,140,769	$ 2,942,331

	Cost	Accumulated amortization	2003 Net book value
Undeveloped land	$ 1,752,187	$ 370,969	$ 1,381,218
Petroleum & natural gas properties	3,907,084	2,522,386	1,384,698
Furniture and fixtures	6,440	2,526	3,914
	$ 5,665,711	$ 2,895,881	$ 2,769,830

As at December 31, 2004 undeveloped land costs of $1,885,672 were excluded from assets subject to depletion (2003 - $1,752,187).

The Company performed a ceiling test calculation at December 31, 2004 to assess the recoverable value of the property and equipment. The oil and gas prices used in the calculation are based on January 1, 2005 commodity price forecast of our independent reserve evaluators. The benchmark prices used in December 31, 2004 ceiling test calculation are as follows:

	Petroleum		Natural Gas	
	NYMEX Quoted Product Price (Cdn$/BBL)	Company Average (Cdn$/BBL)	NYMEX Quoted Product Price (Cdn$/MSCF)	Company Average (Cdn$/MSCF)
2005	53.65	51.20	6.64	5.99
2006	–	49.41	–	5.65
2007	–	47.64	–	5.30

The Company's prices increase at rates of 1.5% after 2007. In this price forecast, US dollars have been converted to Canadian dollars at an exchange rate of 0.83.

A ceiling test surplus existed at December 31, 2004.

5. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2004 is approximately $123,000. These costs will be incurred between 2004 and 2018. The majority of the costs will be incurred after 2008. A credit adjusted risk-free rate of seven percent was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligation is provided below:

	2004	2003
Balance, beginning of period	$ 78,669	$ 72,842
Accretion expense	6,294	5,827
Balance, end of period	$ 84,963	$ 78,669

There were no material liabilities incurred or liabilities settled in the years ending December 31, 2003 or 2004.

6. FUTURE INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 42.62% (2003 - 40.60%) to the income for the year and is reconciled as follows:

	2004	2003 *(restated - note 3 c)*
Income before income taxes	$ 157,670	$ 258,960
Income tax expense at the combined basic federal and provincial tax rate:	$ 60,900	$ 114,400
Increase (decrease) resulting from:		
Non-deductible crown royalties or lease rentals (net of ARTC)	36,500	46,600
Resource allowance	(37,100)	(75,100)
Change in tax rates	(20,000)	(18,000)
Other	18,800	(7,400)
Effective tax expense	$ 59,100	$ 60,500

The Company has available for deduction against future taxable income undepreciated capital cost, Canadian exploration expense and Canadian oil and gas property expense totaling $1,525,785 (2003 - $1,480,121).

The following table identifies the individual components of the Company's future income tax liability at December 31, 2004 and 2003:

	2004	2003 (restated - note 3 c)
Liability related to carrying amount of property and equipment in excess of available tax deductions	$ 590,000	$ 531,900
Asset retirement obligations	(30,000)	(31,000)
	$ 560,000	$ 500,900

7. SHARE CAPITAL

Authorized:

Unlimited common shares

Unlimited preferred shares

	2004	2003
Issued:		
12,400,000 Common shares	$ 3,016,920	$ 3,016,920

Weighted Average Number of Common Shares

	2004	2003
Basic	12,400,000	12,400,000
Diluted	12,482,000	12,575,000

The average share price during the year of $0.46 (2003 - $0.55) was used in determining dilution.

8. STOCK BASED COMPENSATION

The Company has established a stock option plan for the benefit of its directors, officers, employees or consultants. The Board of Directors may designate which directors, officers, employees or consultants of the Company are to be granted options. The Board of Directors fixes the expiry date and price payable upon the exercise of any option granted, at the time of the grant, subject to regulatory requirements. An option granted under the stock option plan may vest at such times as the Board of Directors may determine, or at the time of the grant, subject to regulatory rules and regulations.

The Corporation has the following stock options outstanding:

	Number	Weighted Average Exercis Price 2004	Number	Weighted Average Exercise Price 2003
Outstanding at beginning of year	650,000	$ 0.40	650,000	$ 0.40
Outstanding at end of year	650,000	$ 0.40	650,000	$ 0.40
Exercisable at year end	650,000	$ 0.40	650,000	$ 0.40

9. RELATED PARTY TRANSACTIONS

During the period management fees totaling $96,000 (2003 - $94,000) were paid to two companies controlled by directors of the Company. These fees are recorded at the exchange amount.

10. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

The Company's exposure to financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts due to the short-term maturity of those instruments.

Credit risk:

Substantially all of the Company accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

Board of Directors
Bobby M. Libin*
Calgary, Alberta

Laurie J. Smith*
Calgary, Alberta

A. David van der Lee
Calgary, Alberta

P. Wayne Wells*
Calgary, Alberta

*audit committee

Officers
A. David van der Lee
President and
Chief Executive Officer

P. Wayne Wells
Secretary, Treasurer and
Chief Financial Officer

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Certain statements throughout this annual report, including management's assessment of the Company's future plans and operations are forward-looking statements that involve substantial known and unknown risks and uncertainties. These risk and uncertainties include, among others: risks associated with oil and gas exploration, production, marketing, and transportation such as loss of market, volatility of commodity prices, currency fluctuations, uncertainty of reserve estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources. Accordingly, events or circumstances could cause actual results to differ materially from those predicted.

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